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THE RELATIONSHIP MANAGEMENT OF FRANCHISOR AND FRANCHISEE IN INDONESIA

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ABSTRACT

The research discusses the case study of relationship management between franchisor and franchisee. The problem formulation is related to the conflict management, commitment and relationship building, and the strategy development in the future. There are two franchises that become the focus to study, InulVizta and Alfamart. The growth of these franchises is increasing and indicated by the emergence of franchise in many cities. Each franchise is analyzed based on the conflict management, consumer commitment, and relationship management.

This study uses case study as the qualitative approach. The data collection is carried out by having an interview from the franchisee side. The interview is conducted by inviting the manager or the owner of franchisee side. The results show that the reason to run franchise business is trying to provide better services and to generate more income. The conflict has been managed well so far. Both franchisees have the consumer orientation because they have a lot of competitors. The communication between franchisor and franchisee can be supported by technology such as email or fax. To evaluate the performance of franchisee, there are standard operation procedure and financial reporting. For the future, the franchisee tries to provide better service and to expand the business.

Keywords: franchise, conflict management, commitment, relationship building



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The Relationship Management of Franchisor and Franchisee Case Study: Inul Vizta and Alfamart

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The research discusses the case study of relationship management between franchisor and franchisee. The problem formulation is related to the conflict management, commitment and relationship building, and the strategy development in the future. There are two franchises that become the focus to study, Inul Vizta and Alfamart. The growth of these franchises is increasing and indicated by the emergence of franchise in many cities. Each franchise is analyzed based on the conflict management, consumer commitment, and relationship management.

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Introduction

Franchise is considered as profitable business activities because franchise is a kind of fast product and service dissemination and acts as a main distributor. According to Dant, Grunhagen, Winsperger (2011), franchise facilitates business players to develop their business without having special expertise in the main field. Based on franchise format, franchisee is expected to follow the rule requirements of franchisor in the form of fee payment. Furthermore, franchisee is also supposed to have the spirit of entrepreneurship. In analyzing franchise, this can provide vivid understanding that franchise becomes the business alternatives.

Research concerning franchise has the main focus among academicians. The franchise concept differentiates the traditional corporates that provides easiness for business beginners to run business (Baker & Dant, 2008). A number of previous research has discussed the franchise issue in the business context e.g. franchise contract (Azoulay & Shane, 2001); franchise performance (Barthelemy, 2008); franchise choice (Combs *et al.*, 2011); efficient form of business (Mitsubishi *et al.*, 2008); strategic relationship in franchise (Shane *et al.*, 2006). The other researches have discussed the franchise as the aspect of management and organization e.g. the franchise failure (Michael & Combs, 2008); the effect of agency and institution (Barthelemy, 2011); franchise contract (Cochet & Garg, 2008); franchise facilities (Ketchen *et al.*, 2011; Kidwell *et al.*, 2011); international franchise (Welsh *et al.*, 2006); and double distribution (Srinivasan, 2006).

This research discusses the strategy of franchise in Indonesia by analyzing the franchise system application. Franchise in Indonesia is flowering. This is indicated by the increasing growth of franchise e.g. Indomaret, Alfamart, Es Teller 77, KFC, Pizza Hut, Apotik 24, Red Bean, Seven-Eleven, Coffee-Toffee, Pring Sewu, Salon & Day Spa Marta Tilaar, Laundrette, dan *International Language Program* etc. The successful and well-known franchise in few decades in this world e.g. Kentucky Fried Chicken (1930), Dunkin Donuts (1950), Burger King (1954) dan McDonald(1955). The context of franchise in distribution is the form of retail because it aims at distributing product or service to consumers directly.

The analysis of this research is to firstly understand the reasons of franchise development, secondly, the conflict management between *franchisor* and franchisee; and third, strategic commitment for consumers. Firstly, the importance of understanding franchise can analyze the reason to build franchise business. Theoretically, franchise is established because each party has mutual resources.

Franchisee usually as the party has capital, but they do not have expertise or capability in franchise management. Franchise system gives mutual benefit for each party. Another reason running franchise is driven by the spirit entrepreneurship to run business safe and easily.

Another strategic reason is the exploration to execute business mapping. Secondly, the relationship between *franchisor* and franchisee is business relationship related to right and obligation that must be fulfilled by each party. When right and obligation cannot be well managed, it will create a conflict for both sides. The unmanaged conflict can create worse relationship. The worst condition in this case is to stop the relationship and ends with the legal matters. Therefore, the management of each party is afforded to be well communicated.

Thirdly, the franchise management aims at gaining long term profitability. Each party is expected to have an awareness that the long-term profitability both *franchisor* and *franchisee* can be gained by strengthening commitment for consumers. Commitment for consumers is absolutely fulfilled because it is related to the fulfillment of need and appropriate service for consumers.

The research objective is expected to provide a number of benefits-academic and managerial. From the academic side, it has been realized that the foreign case studies have been used for this time. The foreign case study is not yet optimal to describe the real phenomenon in Indonesia. The characteristic of foreign company is not well applicable to analyze the corporate case in Indonesia. The existing cases tend to use western perspective. By providing Indonesian cases, it is expected to give the analysis of Indonesian cases and to enrich the understanding of success and failure of business with local wisdom. It also becomes the reference in knowledge and improves the next strategy. The research can also be the bridge between the practices and academic so it can be mutual learning. From the practice side, by analyzing case study, it can enlighten the future and better strategy. The corporate case can be learning sources for other corporates as the benchmark. The case solution cannot be thoroughly applicable, but it can be some aspects to be learnt. The aspects to be learnt are marketing, operation management, networking even human resources. The cases are explored in order to understand the recent cases.

The problem formulation of this case is as follows.

- 1) What are the underlying reasons to develop the franchise strategy based on franchisee side?
- 2) How does the franchisee manage the conflict?
- 3) How does the franchisee manage the relationship with the franchisor?
- 4) What is the next strategy to maintain the business?

The franchise in this research is Alfamart and Inul Vizta. Each franchise is analyzed from the perspective of business development, conflict management, commitment for customers and relationship development, future relationship management. The problems analyzed in this can

give the understanding of franchise success story in Indonesia. The case is centered to understand the aspects of franchise.

Literature Review

The Foundation of Franchise Strategy

Two theories used to explain franchise strategy development are 1) *resource dependence theory* (Pfeffer & Salancik, 1978) and 2) *transaction cost analysis* (Williamson, 1985). These theories are the base to understand the franchise development.

First, *resource dependency theory* explains the dependency of resources in one party to another party (Pfeffer & Salancik, 1978). The primary argument of this theory is the organization as the main unit and fundamental for realizing the existence with other organization and surrounding environment. Organization or corporate cannot stand alone because of the dependency of other party that is considered to have sufficient resources to assist other organization's existence optimally. The assistance and cooperation of other corporate are expected to facilitate business activities of other organizations. The organization's interdependency is a means of surviving the existence of organization in a long term. Organization or corporate is not an autonomous entity. The organization needs other assistance for sharing facilities. The interdependency is based on the assumption that each party has mutual needs. The business condition is uncertain so the cooperation with other organization is expected to sustain for mutual cooperation.

The *resource dependency* is used to explain the need mechanism to start the franchise. Franchisee is a party in business entity that needs resources that cannot be fulfilled independently including brand, expertise, distribution, promotion or capital. Franchisor has the expertise and business strategy that can share to franchisee. It is admitted that franchisor does not have the expertise to expand the business if it is not supported by franchisee that has capital resources.

Franchisor can be supported to develop franchise larger. Based on the distribution, franchisor is supported in developing business and expanding the distribution. Franchisor and franchisee have mutual need to have resources. It is called as the complementary business.

Second, transaction cost theory of Williamson (1985) can also explain the franchise. The theory of *transaction cost* is very important to explain the business mechanism (Hennart, 2010). Theory of *transaction cost* shows that business entity has to have a negotiation with other party. The negotiation is the form of transaction based on rationality, opportunity, and monopoly. Rationality shows that in developing business, there is rationality. The assumption

says that business can work smoothly if there is a room to negotiate from others to give business facilitation. This rationality shows the limitation of one's entity to develop a business. This rationality forces individual to have a negotiation with others that can provide support.

Opportunity aspect shows that negotiation with other party considers an opportunity to develop larger and profitable business. Opportunity provides the chance and access for others running the business. Someone running business creates hope for corporates to develop the optimal and better business. In transaction cost, another underlying aspect is monopoly of certain entity that has distinctive ability. This causes other entity to feel that other entity has competitive advantage. Therefore, the only thing that party in franchise can have transaction. This transaction is executed by different ways. One of them is paying a transaction fee.

Shortly, transaction cost theory in analyzing franchise uses negotiation dynamics. The explanation uses three elements as the baseline namely rationality, opportunity, and monopoly. Both franchisor and franchisee has rationality. Franchisor has strength and capability, but it has rationality to expand the business by applying the franchise system. A corporate does not have to develop distribution system, but franchisee can implement franchise system by paying franchise fee. In this case, there is an expertise transfer. The opportunity is also used to explain both franchisor and franchisee. Franchisor uses the opportunity to develop business by giving chance for others to develop business.

Conflict Management

Previous literature explains that franchise concept can also be discussed in the form of power, dependency, conflict, and relationship (Emerson, 1962). Theory of power, dependency, conflict, and relationship explains the interrelationship in an organization. The power concept is related to how someone can give an influence. The mutual power is interrelated for influenced party. If the power is unequal, it will create the dependency of other party. The level of dependency will create conflict. The relationship with no conflict will create a good relationship, otherwise, the relationship with conflict will create a bad relationship.

Each element in a relationship can explain the franchise context. Franchise business is a unique context to analyze the relationship in organization. The relationship is sometimes asymmetrical because franchisor is thought as the party having much more information than franchisee. This relationship has implication on power, dependency, conflict, and relationship. Franchisor is considered to have greater relationship therefore it can dominate the relationship. In addition, with the existence of power, franchisee has dependency over franchisor. The

dependency is indicated by the power of franchisor related to capital, expertise, technology, and good strategy. The continuous dependency causes the weak position of franchisee.

If the relationship between franchisor and franchisee does not work well, it is caused by the dominant power of franchisor. The dominant power creates a long conflict. The long conflict can intervene the relationship. To mitigate the conflict, Grunhagen dan Mittelstaed (2005) argue that franchisee is given a number of chance to initiate ideas. This mechanism can be a way to mitigate the conflict and incoming conflict. Some ways to mitigate the conflict are the franchisee is given a chance to decide brand choice or selecting some materials in developing product or service. Besides, franchisor is also given a chance to take over the ownership of franchise (Gibson, 2006). Therefore, it can mitigate the conflict. Chun (2011) also offered a solution for franchisee to modify the pricing or menu listing. Franchisee has a chance to develop a menu based local taste.

Focus on Consumers

A successful business must be consumer oriented. A consumer is a user of product or service. A corporate or company running a business with consumer oriented has applied an appropriate business orientation because a consumer is the primary determinants for profitability of company (Raaij & Stoelhorst, 2008). The increasing profitability can support the existence of a company in a long term period. The sustainability of company is also supported by the resource availability to create profitable business strategy. The success gives good impact for a company internally, especially for employees.

To support the further existence of a company, company has to do restructuring to adapt the changing consumer demand (Homburg & Jensen, 2000). Besides, a corporate has to business strategies such as acquisition, merger, licensing or franchise. This research analyzed that franchise business has to consumer oriented for both franchisor and franchisee. Dant (2008) argued that franchise business is trichotomy business-*franchisor*, *franchisee*, and consumer. Both franchisor and franchisee should realize that business activities should be have consumer orientation.

Franchisor as a primary license holder does not only aim at generating profitability, but also gives a chance for franchisee to run the business as long as for consumers. The objective of franchise business is implementing distribution strategy. The distribution is the path to facilitate the flow product or service for consumers. Franchise makes franchisor easy to expand the flow of product and service without having facilities. The growth of franchise in several locations, this facilitates consumers to gain the product or service needed. Meanwhile, for

franchisee, franchisee will have a gain if prioritizing service for consumers. The service is an ideally standardized service from franchisor. The service can be product, price, communication or other elements based on standards. However, in next development, franchisee can add better and more optimal service. Consequently, it can create business profitability.

Research Methods

This study uses a case study. The case study is targeted to help understanding the complex issue and enlarging the knowledge about franchise concept. Franchise concept can be analyzed by focusing contextual analysis. This case study is used to explain the event in one context of company and its relationship with other concepts (Hair, *et al*, 2009; Yin, 1984). The case study is defined as empirical research method investigating a phenomenon in real life context and event. The weakness of case study is the research cannot be generalized into a broader scope. According to Cooper dan Schindler (2011), case study is a method that combines individual interview and record analysis. The research uses a case study to analyze the franchise system in organization. The object analyzed is the operational aspects to sustain the franchise success.

Research Question

1. The reasons to develop business.
 - What are the reasons to develop franchise or to implement franchise system?
 - What is the idealism to run franchise system?
2. Conflict management
 - Is there any conflict so far?
 - What is the conflict?
 - How to solve the conflict?
3. Focus on consumers
 - What is the commitment for consumers?
 - What is the strategy to satisfy consumers?
 - What strategy to maintain consumer loyalty?
4. Relationship management between franchisor and franchisee
 - How to maintain the relationship between franchisor and franchisee?
 - How to communicate one another?
 - How to evaluate the performance of each party?
5. The crafting of future strategy

- How to develop the future business?
- Is the franchise developed into a larger scope?

Case Selection

The case selection can be both one case and several real cases. Every single can be used as the information to understand the whole case. The case selection needs a number of consideration because of the recency and relevance. The case is also selected because of geography and industry. The level analysis is also emphasized because the research subject can be an important informant to provide valuable information. In this case, two franchises used are Alfamart and Inul Vizta.

The case study is done by collecting information systematically to answer the questions research. Primary data are collected by having an interview. The interview is executed with the franchisee. The consideration of selecting franchisee is:

1. Franchisee has had the relationship for at least three months. The longer relationship is expected to have information gathered by franchisee because of the experience having good relationship with franchisor.
2. Franchisee is considered to have ability and authority to make a decision in developing strategies with franchisor.
 1. From Alfamart, the informant is the Fery Corly. The location is situated in Little China, Legenda Wisata Cibubur. Fery Corly has held franchise since 2005. The long relationship with franchisor, it is considered that the franchisee has sufficient information concerning the experience of managing Alfamart.
 2. From Inul Vizta, the informant is Rudy Madih. The location is Mall of Pejaten Village, Pejaten, Jakarta. Rudy Madih has held franchise since 2010. The long relationship with franchisor, it is considered that the franchisee has sufficient information concerning the experience of managing Inul Vizta.

Data Evaluation

The raw data is collected and related to the research questions. The collected data is analyzed by categorization, selecting, and using the data to analyze.

The Analysis

The explorative analysis is done by having an interview with the franchisee of Inul Vista and Alfa Mart. The answers of the interviewees are integrated and analyzed to support the main idea and to draw the conclusion.

The Reasons to Initiate the Business

The business start up is based on a number of reasons. The main goal is providing better services for consumers. The better service for consumers aims at making consumers to be loyal. In addition, the business is run because of the profitability gain. Franchise is one of entrepreneurship for providing expansive jobs or creating new jobs.

Inul Vizta provides an argument of the reasons initiating the business as follows.

“Inul Vista karaoke franchisor is open to all the family. The karaoke provides convenience to all people or visitors due to the different models of karaoke with karaoke the other with no guide, it does not provide an outlet free from alcohol and cigarettes. Concepts developed in this franchise have proven to franchise owners with payback within 15-20 months and can be seen from the franchise ROA ”.

“For novel businessman about franchise, this business provides clear standard system where the branding is assured, the availability of product knowledge from franchisor, profitability of franchise such as SOP (standard operating prosedur), updated songs from *franchisor* in the form of dropping, information technology system developed by franchisor. Businessman becomes franchisee and in the reality, they do not concentrate with the operating system as long as there is availability of resources”.

Inul Vizta tries to initiate idealism in running franchise.

“The business type developed depends on the owner characteristics so the franchise candidate will have the same characteristics for running a business. Ideally, it tries avoiding a conflict from franchisor”.

“In Alfamart, the reason to start the business is the easiness to run the business and to manage the activity”.

“Having franchise of Alfamart, it can have additional income to support the main job”.

“Following the existing procedure from franchisor and given at shop opening”.

Business is initiated to fulfill the consumer demand. Franchise is the part of entrepreneurship to create profitability if the business is successful. They are motivated to make a decision that increases business profitability and keeps the low risk so that they can increase their gain. Successful business creation can be good for entrepreneurs and the owner that gain

the profitability and satisfied consumers. Franchise business can have positive impact for doing a business well (Madura, 2006).

Conflict Management

The most profitable mechanism is driven by strong cooperation between franchisor and franchisee based on trust. Each participant has great trust each other. The everlasting relationship is based on trust and each understands the obligation and have the benefits (Harmon dan Griffiths, 2008; De Ruyter and Wetzels 2000). The satisfying relationship is driven by communication and commitment (Fyness & Voss, 2002), empathy, and good conflict handling (Roberts *et al.*, 2003).

The Occured Conflict

“Between franchisor and franchisee, there is no conflict because the franchisor is flexible and has set standard such as karaoke in Inul Vista bans alcohol consumption”.

Conflict Handling

“In Inul Vizta, there is no conflict that happened. In this case, if there is conflict, it will be solved in the head office”.

Business world has a unique context to understand organization interrelationship between franchisor and franchisee. This relationship is sometimes asymmetrical because franchisor is thought as having much more information than *franchisee*. This relationship has implications over the concept of power, dependency, conflict, and emotional attachment. Power is indicated by the relationship between franchisor and franchisee. In the mean time, franchisor has stronger power because they have larger resources. Consequently, franchisor can force or dominate the relationship with franchisee. Franchisor has information and resources to maximize profitability and tends to give disadvantage for franchisee. If the power tends to more dominant for franchisor, franchisee tends to have greater dependency. The dependency can be capital, expertise, resources, knowledge, technology, and business strategy. Ideally, franchisor has orientation not to focus on their own interest and not to let franchisee depend on franchisor in a longer period. Finally, the longer dependency, the weaker franchisee is.

Interview with the franchisee of Inul Vizta, shows the relationship between franchisor and franchisee located in Mall of Pejaten Jakarta. Inul Vizta as the franchisor has obliged the rule and never put dominant power. In doing so, the conflict has never occurred with franchisee. Franchisee does not have any conflict therefore this condition can create harmony. Furthermore, the relationship can be maintained and tends to extend in a longer period.

On the other side, franchisee of Alfamart had a late delivery of goods. This was very important related to the anxiety of stockout. The stockout can cause consumers dissatisfied. The continuous stockout can cause consumers to have bad perception toward the retail. Consequently, consumers will leave the retail and change into a new retail or store to visit. Emmelhainz, Emmelhainz and Stock (1991) showed that there was a variation of behavior e.g. 1) choosing substitute product with similar brand; 2) choosing the product with similar brand but with different size and variation; 3) choosing the same product with different brand and different size and variation. Another respond was switching to another brand with cheaper product, buying the product with similar price, buying the same brand but with different size, postponing the purchase and switching to another retail.

“In Alfamart, the conflict is the late delivery of goods and it is not in line with the procedure”.

To mitigate the existing conflict, there is a number of mechanism to do so. Grunhagen and Mittelstaed (2005) argued that franchisee can be given a number of chances and opportunity to initiate ideas. This can be a medium to mitigate the incoming conflict. Extremely, franchisor also gives the chance for franchisee to determine the take over of *franchisee* if there is a change of ownership (Gibson, 2006). In doing so, it can mitigate the conflict. The conflict management can be done by renegotiation to find out solution for the conflict. The complaint to franchisor can be put forwarded to find quick solution and to avoid worse conflict. The enduring conflict can have a negative implication for consumers. Consumers will perceive that the retail is not able to provide better services.

“In Alfamart, there is just a complaint, but the follow up is on franchisor, and there is no punishment yet”.

Commitment to Consumer

Franchise is considered as the profitable asset and provides a number of benefits for consumers because consumers have standardized service from service provider (Mayasari, 2011). A good business is afforded consistently to be consumer oriented. A consumer is the end user of products and services offered by company. A company running a business should be consumer oriented consistently. The consistency of consumer orientation is one of the ways to determine company profitability in the long period (Raaij & Stoelhorst, 2008). The enduring profitability will support the existence of a company in a longer term. The good conduct of company will help it to have long survivability.

“In Alfamart, consumer is the king and very important for both franchisor and franchisee”.

Alfamart is a distributor for convenient products that offers the daily needs of consumers. The existence of Alfamart does not stand alone in developing a business because there are a lot of competitors that offer the same products and services e.g. Indomaret, Alfamidi, Lawson, and other distributors. The offering products are quite similar, but the service makes it different. The service is important including the active interaction from employees. The quick delivery makes consumers satisfied. This includes the product layout and the completeness of products.

Sumber Alfaria Trijaya Ltd or Alfamart is the franchisor, has tried to be a company that focuses on distribution marketing strategy implementation. Product distributions of daily needs are the flow to make the products easy to be distributed to consumers. Alfamart provides easiness for developers or franchisees by expanding the product and services flow without having own facilities. The wide distribution of Alfamart in Indonesia makes consumers easy to find the daily products. In one side, franchisor and franchisee will have profitability by giving priority for consumers. The service delivery should be based on the main procedure of franchisor. The delivery can be product, price, communication or other elements that are in line with franchisor.

In addition of product distribution, there is service distribution. Inul Vizta as franchise business aims at distributing service for consumers. Service business is a business that focuses on consumer intimacy. The strong consumer intimacy demands a company to give the priority of delivery for consumers because consumers cannot see the physical products. The service consumption will be perceived when consumers can directly consume service. Inul Vizta focuses on convenience as the service attributes for consumers to sing karaoke.

“The owner of Inul Vizta as the franchisor put an emphasis on convenience for every customers that is in line with the characteristic of the owner. The service delivery has to give convenience for consumers. The consumer is “The icon of singing of celebration”.

Both Inul Vizta and Alfamart believe that running a business should focus on consumers as franchisor demands. Dant (2008) argued that the business franchise is a business that has trichotomy orientation namely franchisor, franchisee, and consumer. Both franchisor and franchisee realize that business effort should consider consumers as the partner entity. This dynamics shows the franchise survivability supported by understanding of consumers.

Strategy of Satisfying Consumers

The business process is also supported by the availability of company resources to create a profitable business. The success gives positive impact for a company internally. To support a company, it has to restructure of organization in order to be able to adapt consumer demand and changing demand (Homburg & Jensen, 2000). In addition, a company can also execute other business strategies e.g. acquisition, merger and licensing.

For Inul Vizta and Alfamart, these two companies try to maintain the business existence by expanding business with franchise. The business progress demands both franchisor and franchisee has to deliver better service because consumers have diverse preferences. Consequently, it needs large resources to operate. Each franchise strengthens physical resources and supporting facilities.

“Franchise of Inul Vizta has been well tested of franchisor in the form of skill, service that is customized to fulfill the need of consumers”.

“Alfamart tries to prepare the space for selling, providing air conditioners, and doing a promotion for consumers”.

Strategy for Maintaining Loyalty

The existence of franchise is supported by consumer loyalty. Loyalty is measured by the behavior aspect such as the number of visit to the retail. The increasing number of visits, the increasing tendency to increase consumer profitability in the long run. A number of developed strategies can be loyalty program, reward program, gift, or giving a quiz (Kotler & Keller, 2009). Loyalty programs of Alfamart are Alfamart card, onlineSmart and Easy Shopping. Alfamart also has a program of *Member Get Member* (MGM) that uses a concept of *social network marketing*

to create a community. Alfamart also gives positive contributions for all consumers. Through Member Get Member program, each member can expand the social network at once and have free purchase (www.alfamartku.com).

“Through Alfamart, the strategy for retaining consumer loyalty, there is member card to give discount. There is discount, gift, or member card, and certain discount for purchasing until a certain level”.

Inul Vizta tries to maintain consumer visit from time to time. It is very important to maintain the long run visit because it can create the long term profitability.

“Inul Vizta gives attention for it’s customer based on database by giving attention such as congratulations, on the spot reward, bag, ball point. Furthermore, we try to give better services and to provide augmented products .”

Maintaining The Relationship between Franchisor & Franchisee

Relationship of Franchisor & Franchisee

Franchise network is a *co-creation* between franchisor and franchisee. Each participant has a role to support the the profitable cooperation. Each participant has a clear role as franchisee and franchisor. Franchisor has to explain the standard procedure about business operational so franchisee can run a business based on an appropriate procedure. Therefore, *franchisee* can run a business well and provide better services for consumers (Harmon & Griffiths 2008).

“In Inul Vizta, both franchisor and franchisee have a good coordination and orderd in an agreement for them and pay royalty on time. Both also have the right and obligation well, so the cooperation goes well”.

“For Alfamart, franchisee in this study has the relationship that is limited to the modification of standard operating procedure, credit giving, but there is no special treatment from franchisor”.

Based on the published information on website, Bank of Central Asia has cooperated with Sumber Alfaria Trijaya, Tbk. or Alfamart to sign the agreement of payment for *franchisee* in

developing outlets of Alfamart. The credit facilities for franchisees of Alfamart is the follow up of cooperation during the cooperation BCA and Alfamart. The facility gives the easiness for franchisees to develop their business or new starters. The agreement provides expectation for society to own Alfamart with franchise scheme. The agreement aims at realizing corporate vision to be well-known retail network. The franchise is expected to foster the franchise growth in Indonesia, especially in retail industry. The payment facility agreed is the commitment of BCA and Alfamart. By giving the facility, the franchisee will gain profitability such as fixed rate or floating rate.

Communication

In developing a good relationship between franchisor & franchisee, communication is the important aspect for sharing information. This information is important because it directs franchisee to run a business based on an agreement. Franchisee is given freedom to initiate idea for franchisor of developing local strategies. Davis (2004) argued that the effective communication can be closer to each participant. This can create the emotional relationship with participants or franchisee. Each participant can give opinion and has discussion to provide a better service.

Both Inul Vizta and Alfamart do not have any problem of communication. Franchisor gives the freedom for franchisee to discuss the changes of service delivery for consumers as long as it is in line with the agreed procedure.

“In Inul Vizta, both sides communicate with correspondency or fax. If there is a change of price, it is easily communicated. Social media are also used to communicate message.”

“Communicate with coordinator area and manager area of Alfamart”.

Evaluate the Performance

Performance evaluation is done by each franchisee. Performance evaluation is considered as performance monitoring for improvement. In addition, performance evaluation can be a baseline to improve a better strategy in the future. The performance is the performance report to be modified with existing *standard operating procedure*.

This is only done by Inul Vizta and Alfamart. Each franchisee reports the performance and budget routinely to franchisors.

“Performance is evaluated by franchisor-Inul Vizta by considering revenue every period. Franchisor can monitor through website any opinion and critique. There is a general meeting to give explanantion concerning the limit of revenue that should be afforded.

Franchisor can have spontaneous inspection concerning the implementation of standard operating procedure such as uniform, price of room standard, discount”.

“There is a monthly financial report. The financial report uses special information system from franchisor”.

The Future of Strategy Crafting

Inul Vizta and Alfamart try to maintain the business activity in the future. This can be done by expanding better facilities of each franchise. Franchise can be maintained as long as it is more profitable.

“Franchise of Inul Vizta is assured for the brand. The brand of Inul Vista has a good branding. By providing supply of new released songs from franchisor with guarantee of intellectual property, it is legal conduct. This song can be served for the customers. In addition, it can also contain promotion activity of the song and the singer”.

“Inul Vizta plans to expand the business by opening new outlet in Rawamangun Square dan Tebet Green Mall. In trying new outlet, franchisor tries to pay attention the distribution location and the new outlet opening asks the approval of location owner”.

“Each franchisee tries to search for the existing procedure”.

Table of Analysis Tabulation

No	Aspect	Inul Vizta	Alfamart
1	The reasons of opening the business or developing the business	Delivering service	Gaining additional revenue
2	Conflict management	There is no conflict	Once, there is a conflict, but it is back to the procedure to solve
3	Focus on Consumer	Emphasize convenience	Consumer is king
4	Relationship between Franchisor & Franchisee	Paying royalty on time	There is no special treatment program
5	Communication	Fax	Coordinator area
6	Evaluate each performance	The implementation of SOP and general meeting	Financial report
7	The future strategy	Expanding business	Stay on the existing procedure

Conclusion

1. In general, the business selection of franchise is to make easy for franchisee or the owner in running business activities with the guaranteed brand, existing procedure from franchisor, product, and business development.
2. The conflict management between franchisor and franchisee does not relatively occur as long as franchisee pays royalty, comply the obligation and the agreed rules.
3. Franchisee and franchisor agree to give priority of service delivery that is *customized*, giving reward and souvenir to customer based on loyal customer data base.
4. The relationship of franchisee and franchisor is based on the previous agreement by having a routine communication such as monthly general meeting, using social media, and active communication of every changes.
5. Franchisee in expanding the business is guaranteed by the well-known brand. The products are also assured, in terms of intellectual property. There is also the regulation of business location from head quarter to assure the sustainability.

Suggestions

The franchise business is relatively well managed in terms of relationship between franchisee and franchisor. The relationship is not complicated as long as both parties comply the agreed rules in the agreement contract. There are some suggestions as follows. .

1. The strength of relationship and brand becomes the strategic tool in running a business activity. To maintain business survival, the agreement evaluation and standards should be monitored periodically.
2. The main distribution location of new outlet opening must be paid attention. It tries to avoid the overlapping location.
3. Intellectual property of unique products and business effort is relatively vulnerable of competition. The competition is highly tight. Every business can be copied easily by competitor. Franchisor has to manage the business well by strengthening operating procedure and improving marketing strategy and providing qualified products and better services.
4. The safety or security of franchise business must be paid attention by franchisor and franchisee. This aims at protecting the loyalty of consumers and the competition.

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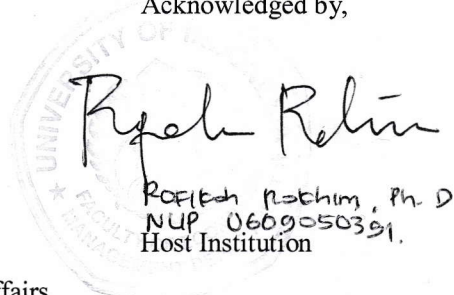
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